

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE NOTICE OF PURCHASED)	
GAS ADJUSTMENT FILING OF)	CASE NO. 10288-B
AUXIER ROAD GAS COMPANY, INC.)	

O R D E R

On March 14, 1989, the Commission issued its Order in this case approving rates effective April 1, 1989 for Auxier Road Gas Company, Inc. ("Auxier Road"). The rates were based on the average wholesale cost of gas from Auxier Road's suppliers, Columbia Gas of Kentucky ("Columbia") and Presley Energy ("Presley"), using purchases for the 12-month period ending December 31, 1988.

In its notice, Auxier Road computed the average wholesale cost of gas by applying Columbia's rate to its purchases from Presley for the period January through April 1988. Columbia's rate is higher than Presley's rate, which resulted in Auxier Road's computation of the average wholesale cost of gas being overstated. The Commission corrected this error by applying Presley's rate to all of Presley's purchases for the 12-month period to arrive at a correct average wholesale cost of gas.

On March 22, 1989, Auxier Road filed a petition for rehearing and reconsideration contending that the effect of the Commission's Order was to require Auxier Road to duplicate refunds ordered in Case No. 9318-D.

Discussion

In Case No. 9318-D, Auxier Road was required to refund to its customers overcollections for a period which includes January through April 1988. The overcollections resulted from the filing of purchased gas adjustments by Auxier Road in which Auxier Road applied Columbia's rate to all its gas purchases even though a portion of those purchases were from sources other than Columbia and were priced at lower rates than Columbia's rate. Thus, Auxier Road's customers had been charged excessive rates during January through April 1988, and Auxier Road is currently refunding these amounts as ordered in Case No. 9318-D.

In the instant case, Case No. 10288-B, the Commission's task was to set a new weighted-average base gas cost. In its proposal, Auxier Road had used total volume purchases for the calendar year 1988 but incorrectly priced a portion of the purchases from Presley at Columbia's rate. In setting a weighted-average base gas cost, the Commission could use any 12-month test period which would reflect the expected overall weighted cost of gas for the future, since a PGA is to price gas for upcoming periods. Because Auxier Road had proposed to use the calendar year 1988, the Commission adopted that year as the 12-month test period. Any current 12-month period could have been used to set rates for service on and after April 1, 1989 as long as the gas purchases during the period represented the expected ongoing mix of gas from the two suppliers.

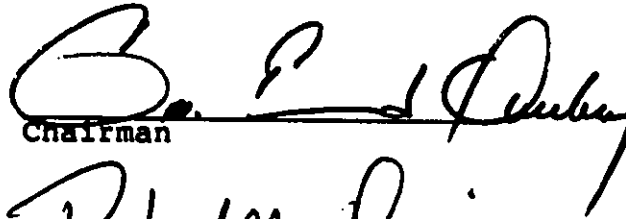
Auxier Road now is of the opinion that the actions in Case Nos. 9318-D and 10288-B require a duplication of the refund for the months of April through January 1988. This is simply not true. The refund was for purchases during those particular historical months. The instant case, 10288-B, used a test period which included the months of refund to set expected rates for service rendered on and after April 1, 1989. This concept is no different than expenses used in a rate case. For example, in a hypothetical rate case, the Commission might determine that the appropriate test period is the calendar year 1988. During 1988 the hypothetical company spent \$10,000 on its employees' salaries. The Commission uses the \$10,000 in salaries as the expected ongoing cost of salaries and sets a rate that in the future would recover \$10,000 per year for salaries. The Commission in these actions is not making customers pay the \$10,000 in 1988 salaries twice; the Commission is merely using the \$10,000 as a basis to set rates for the future. This hypothetical situation is directly analogous to Auxier Road's January through April 1988 purchases from Presley. The Commission is not requiring a duplicate refund, instead the Commission is using the expenses for those months to estimate future expenses and, thus, rates.

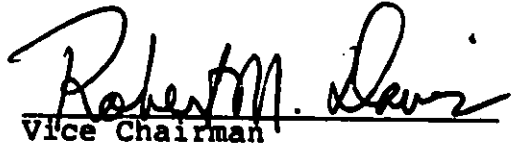
Therefore, the Commission is of the opinion that Auxier Road's petition for rehearing has no basis and should be denied.

IT IS THEREFORE ORDERED that Auxier Road Gas Company, Inc.'s petition for rehearing and reconsideration filed March 22, 1989 be and it hereby is denied.

Done at Frankfort, Kentucky, this 11th day of April, 1989.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director